KENYA POST OFFICE SAVINGS BANK

POSTBANK

My Bank, My Choice, My Future

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

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CORPORATE INFORMATION

Kenya Post Office Savings Bank (Postbank) is established under an Act of Parliament CAP 493B of the laws of Kenya, and is domiciled in Kenya. The address of the registered office of the Bank is:

Postbank House
16th Banda Street
P. O. Box 30311 00100,
Email: md@postbank.co.ke
Website: www.postbank.co.ke
NAIROBI-KENYA

Principal Activities

Postbank is primarily engaged in the mobilization of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B. In addition, the Bank offers other financial services such as remittance, collections and disbursement services.

Directors

The members of the Board of Directors who served during the year are shown on page 3.

Company Secretary

For

Mr Hannington Ouko
Company Secretary
P. O. Box 30311- 00100,
Nairobi

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL BANKERS

Kenya Commercial Bank Ltd
Kencom House – 6th Floor
P.O Box 48400 - 00100
Tel: +254-020-3270000
NAIROBI

National Bank of Kenya Ltd
Harambee Avenue branch
P.O Box 72866-00200
Tel: +254-020-2828000
NAIROBI

Citibank, N.A.
P.O Box 30711-00100
Upper Hill Road
NAIROBI

INDEPENDENT AUDITOR

Auditor- General
Office of Auditor General
Anniversary Towers, University Way
P.O Box 30084-00100
NAIROBI

PRINCIPAL LEGAL ADVISORS

Kale Maina & Bundotich Advocates
Teleposta Towers, 13th Floor, Kenyatta Avenue
P.O Box 10674-00100
NAIROBI

Kimaru Kiplagat Advocates
National Bank Building, 1st Floor, Uganda Road
P.O Box 5025-30100
ELDORET

Cherono & Co. Advocates
Hazina Towers, 8th Floor, Monrovia Street
P.O. BOX 4007-00100
NAIROBI

Kantai & Co. Advocates
Bruce House, 10th Floor, Standard Street
P.O. BOX 34247
NAIROBI

Macharia-Mwangi & Njeru Advocates
ACK Garden Annex, 6th Floor, 1st Ngong Avenue
P.O. BOX 10627-00100
NAIROBI

BOARD OF DIRECTORS

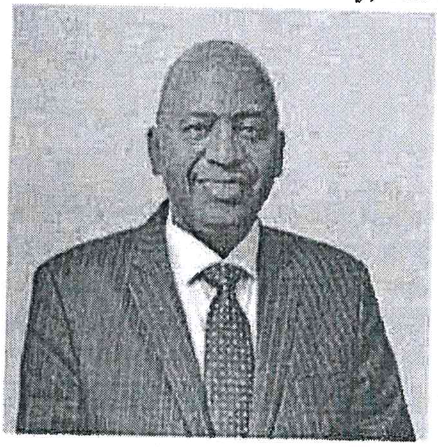
Mr. Moses Banda

Moses Banda holds a Bachelor of Arts (BA) degree in Microfinance and Economic Community Development from Uganda Martyrs Catholic University and a Master of Business Administration (MBA) degree in Banking and Finance with specialization in Microfinance from Moi University. He has unrivalled experience in Microfinance, spanning over two decades. Prior to joining the Bank, Mr. Banda was lead Managing Director at Rosmo Limited, a founder employee of K-rep (now Sidian) Bank, and a Director at Susu Microfinance Bank-Nigeria.

He is hands on and has gained practical experience in leadership, governance, transformation, policy formulation, fundraising and lobbying. He is also a member of Association of Microfinance.

Mr. Banda has served as a director of several national and international organizations. He is a widely sought after public speaker, resource person and financial advisor.

Mr. Solomon Kitungu
Alternate to Cabinet Secretary, The National Treasury



Solomon Kitungu is a graduate of Nairobi University and Manchester University – UK. Prior to joining Postbank, he served as an Executive Director of the Privatization Commission from 2009 – 2017 and Investment Director at the National Treasury from 2003 – 2009. Mr. Kitungu is currently the alternate director for the CS National Treasury in the Board of Directors of the Insurance Regulatory Authority. Previously, while at the National Treasury Mr. Kitungu served in other Boards such as the Agricultural Finance Corporation, Kenya Commercial Bank, National Bank of Kenya, Kenya Electricity Generating Company, Kenya Power, Kenya Petroleum Refineries and Kenya National Assurance (2001).

Mr. Kitungu has attended the Advanced Management Programme at Strathmore Business School and University of Navara Barcelona, Spain, and has extensive experience in public sector investments and reforms, privatizations and Public Private Partnerships

SENIOR MANAGEMENT

Ms. Anne Waiyego Karanja
Managing Director

Mr. I.J.S Obuon
Chief Operations Officer

Simon Njoroge
Head Banking services

Jacinta Kasingiu
Head Special Projects

Henry Kenozwa Omumia
Head Information and Communication Technology

Hannington Ouko

Head Legal/ Company Secretary

David Gatawa

Head Marketing & Business Development

Thomas K. Bett
Head Human Resource Administration & Property Management

Evelyn Tsimanji Madigu
Head Finance & Accounting

Lydia Alum
Head Audit

Ms. Sabina Oyatsi
Head Human Resource Special Projects

CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Financial Statements of Kenya Post Office Savings Bank (Postbank) for the year ended 31st December 2018

REVIEW OF ECONOMIC PERFORMANCE

Global and Regional Economy

Global growth is moderating as the recovery in trade and manufacturing activity loses steam. Despite ongoing negotiations, trade tensions among major economies remain elevated. These tensions, combined with concerns about softening global growth prospects, have weighed on investor sentiment and contributed to declines in global equity prices. Global growth for 2018 is estimated at 3.7 percent, as in the World Economic Outlook (WEO) forecast, despite weaker performance in some economies, notably Europe and Asia. Regional growth is expected to accelerate to 3.4 percent in 2019, predicated on diminished policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries.

Kenyan Economy

The Kenyan economy is on a rebound in 2018. Reflecting improved rains, better business sentiment and easing of political uncertainty, real GDP growth is estimated to rebound from 4.9 percent in 2017 to 5.7 percent in 2018 and rise gradually to 6.0 percent by 2020 as the output gap closes. This growth trajectory lays a solid foundation within which the government could accelerate poverty reduction especially if accompanied by pro-poor and inclusive growth policy measures.

The downside risks to this outlook arise from subdued private sector credit growth that could curtail private investment; fiscal slippages that could compromise macroeconomic stability; and an uptick in oil prices and tightening global financial markets, which could exert undue pressures to the current account balance.

Inflation

According to Kenya National Bureau of Statistics (KNBS), inflation soared in the last four months leading to December, averaging at 5.63 per cent per month as demand for food stuff, clothing and transport rose.

The price of food and non-alcoholic beverages rose by one per cent between November and December. Transport, fuel, electricity and housing recorded a significantly higher rate of between 13.47 and 14.34 per cent.

Outlook for 2019

The global economy is projected to grow at 3.5 percent in 2019 and 3.6 percent in 2020. Locally, the strong pick-up in economic activity that started in the first half of 2018 is expected to continue over the medium term. GDP growth is projected at 5.7 percent in 2018, rising to 5.8 and 6.0 percent, respectively for 2019 and 2020. The pickup is underpinned by the current slack in the economy with an estimated negative output gap of about -0.6 percent of GDP. As the economy rebounds the output gap is expected to close over the medium term. The upgrade in growth for 2018 reflects a stronger than earlier projected rebound in agricultural output.

CHAIRMAN'S STATEMENT (continued)

Strategic Planning

In the year 2018, the Bank continued the implementation of its 5 year strategic Plan – 2016-2020. A midterm review of the 5 year plan as well as the Bank's Action Plan 2018 was carried out. The Bank developed its Action Plan for the year 2019 which formed the basis of performance contracting with the Government of Kenya for the year 2019.

Strategic Partnerships

The Bank continues to maintain strategic partnerships with key organizations which allows for Postbank to network, gain knowledge and share experiences with other members within the partnerships. These are:

1. Association of Savings Bank of East Africa (ASBEA)
2. World Savings Banks Institute (WSBI)
3. Association of Micro- Finance Institutions (AMFI)
4. Kenya Bankers Association (KBA)

Association of Savings Bank of East Africa (ASBEA) 15th Annual Meeting

The Bank attended the 16th Annual General Meeting and the 7th Board of Trustees Meeting for the Association of Savings Banks of East Africa (ASBEA) from 29th to the 30th November 2018 that were held in Zanzibar. The Conference deliberated on the progress made by the member banks in the year 2018. The Conference also was taken through the impact of technology on banking.

Appreciation

I would like to convey my sincere appreciation to the Government, our esteemed customers and business partners for their continued support. I also wish to thank the management and staff for their dedication to service.

....
DIRECTOR
_______ **March 2019**

MANAGING DIRECTOR'S STATEMENT

I wish to present the Bank's Annual Report and the Financial Statements for the year ended 31st December 2018.

Financial Performance

Postbank's financial performance for the period ended 31st December, 2018 was a loss of Kshs.1.589 billion recording a negative growth of 16.42 % from 2017 figure of Kshs 1.364 billion.
Gain on revaluation of Property and Equipment was Khsh 883 million.

Total assets grew by 5.40 % to at Kshs 14.08 million in FY 2018 from Kshs. 13.36 billion in the financial year 2017, mainly due to Revaluation of Property and equipment during the year .
Customer deposits increased by 5.91% to stand at Kshs 20.01 billion in the financial year from Kshs 18.9 in year 2017.

The decline in performance was occasioned by:
• Decline in Interest income as a result of decline in interest rates in Government securities from 13.5 % in 2017 to 13% in 2018
•Increase in customer deposits resulted to an increase of 16.5% on Interest expense from Kshs 568 million in 2017 to Khs 681 million in 2018 .

Business partnerships

The Bank continued to enter into various business partnerships to grow business. In Year 2018, the Bank signed a deal with the Government to facilitate the launch of "Inua Jamii" to aid the disbursement of funds to beneficiaries under the social protection programme- National Safety Net Programme (NSNP)
The Bank started Xpress Money transfer and did another round of recruitment with National Youth Service (NYS) to carry out financial literacy and also facilitate stipend payments to the NYS grandaunts who are posted to various parts in the country.

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MANAGING DIRECTOR

MS. ANNE W. KARANJA

_____________March 2019

CORPORATE GOVERNANCE STATEMENT

Postbank is committed to the standards of corporate governance as set by the Government for the public sector from time to time and the Central Bank of Kenya on specific services offered by Postbank.

The Board of Directors is responsible for the long term strategic direction for profitable growth of the Bank while being accountable to the shareholder by ensuring that Postbank complies with the laws and the highest standards of corporate governance and business ethics

The Directors attach great importance to the need to conduct the business and operations of Postbank with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

Board of Directors

The Board is made up of six (5) Directors of whom 4 are non-executive including the Chairman. The term for the Chairman ended on 10th January 2017. Three other Directors were appointed in 2018
Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance requirements. The day-to-day running of Postbank has been delegated to the Managing Director. The Board retains responsibility for establishing and maintaining the internal control over the strategic, financial, operational and compliance issues. The Board is responsible of ensuring succession planning and facilitates recruitment of the Managing Director. Despite not having a fully constituted Board the Bank is complying with the Mwongozo "the code of governance for state corporations" and all the Directors have undergone training on the code organised by the State Corporation Advisory Committee (SCAC).

Board Meetings

The Board of Directors meet on quarterly basis or as required. The Board is responsible for monitoring the implementation of Postbank's planned strategy and reviewing it in conjunction with its financial performance. Specific reviews are also undertaken on operational issues and future planning. At the end of each financial year, the Board evaluates itself, the Managing Director and Senior Management Staff against targets that have been agreed at the beginning of the year.

Code of Ethics

Postbank is committed to the Public Officers Integrity and Ethics Act 2003, Leadership and Integrity Act 2012 and Kenya Anti-Corruption and Economic Crimes Act 2003.

CORPORATE GOVERNANCE STATEMENT (continued)

Communication with Shareholder

Postbank is committed to ensuring that the shareholder and the Parliament are provided with full and timely information about its performance. This is usually done through the distribution of the Bank's quarterly reports to the Inspectorate of State Corporations and Ministry of Finance and specifically the Annual reports to the Clerk of the Parliament for distribution to the Members of Parliament. Postbank is in compliance with its obligations under the KPOSB Act, State Corporations Act and Central Bank of Kenya guidelines relating to remittance services together with other Guidelines issued by the Government.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2018 is disclosed in Note 15 to the Financial Statements. There were no loans given to sitting Directors at any time during the year.

ard and Board Committees Attendance

The following table gives the record of Postbank's Board and Committee Meetings for the year ended December 31st 2018.

Type of Meeting	No. of Meetings	Solomon Kitungu	Moses Banda	Ms. Mercy Luseno	Mr. Samuel Bunei	Ms. Anne Karanja
Main Board Meeting	2	2	2	2	-	2
Special Board Meeting	1	1	1	1	-	1
Audit and Risk Board Committee	1	1	1	1	-	N/A
Staff Board Committee	2	2	2	2		2
tegy and Development Board Committee	2	2	2	2	-	2
Ad hoc Staff Committee	N/A	N/A	N/A	N/A	N/A	N/A
Attendance	100%	100%	100%	100%	N/A	100%

DIRECTOR .... MANAGING DIRECTOR ....

_______________ March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

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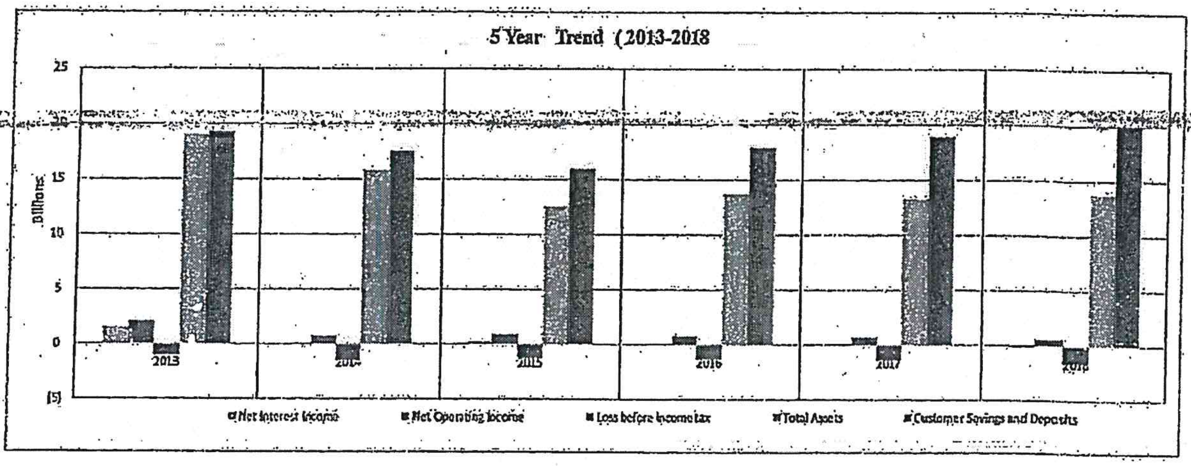

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Compliance with Statutory Requirement

During the period under review, the Bank honored all it statutory obligations by remitting all required deductions within the statutory time line.

Strategic Plan 2016 -2020

In the year 2017, the Bank commenced on the implementation of the second year of its 5 year strategic Plan – 2016-2020. During the year, the Bank carried out a midterm review of its Action Plan 2017 and also developed the Action Plan for the year 2018. This Strategic Planning process was followed by a budgeting process for the year 2018. The Action Plan and Budget 2018 together formed the basis of performance contracting with the Government of Kenya for the year 2018

Major Risk Facing Postbank

The major risk facing Postbank is lack of one stop shop banking solution for customers compared to the competition. The Bank is a Savings Bank and not a lender, thus the customers find it easier to save where the Financial Institution can provide loans to assist them grow business, buy key assets and payment of school fees among others. This has led to shrinking of the customer deposit base, dormant accounts and as a result, led to depletion of the Bank's capital base and losses.

The Board and the management have been in consultation with the Government through the National Treasury with a view to injecting capital to defray the accumulated losses as provided in the Kenya Post Office Savings Bank Act, cap 493B, section 13(I).
The management is also addressing areas of cost management and through staff rationalisation and closing unprofitable branches. One branch was closed during the year under review. Customers will still be served through the Mashinani Agency Network, Mobile Banking and Internet Banking. Management is enhancing business Partnership's with the Government and Private sector especially for disbursement of Government Social funds and stipend, salaries and wages.
The National Treasury approved the sale of the Postbank Training School in Muthaiga North in December 2016 to partly fund the staff restructuring. This will reduce the cost income ratio. The sale process has commenced and we are hoping to conclude by end of 2019 subject to receiving a responsive bid.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

INTRODUCTION

Postbank is committed to positively empower the communities in which we operate through intervention in Corporate Social Responsibility programs that support diverse and deserving groups, Institutions and projects across the country. The Bank's Corporate Social Responsibility (CSR) efforts are fundamental to our core values and culture and these extend to throughout the bank and its branches.

The Bank's strategic focus on its CSR is on;

1. Education
2. Health
3. Environment

In 2018, Postbank supported different causes aligned to our strategic plan and participated in a range of community activities

EDUCATION

The Bank strongly believes that education is an investment for the country's future and supports initiatives that promote conducive learning environment to students across all levels i.e. primary, secondary, tertiary and university. During the year under review, Postbank donated exercise and text books to the following schools;

- Hatua Likoni community library in , Mombasa,
- Our Lady of Nazareth in Mukuru, Nairobi
- Kagumo Secondary School in Murang'a
- Kagira Secondary School in Nairobi

The Bank also donated desks and benches to Kaphingo Primary School in Mombasa and supported the construction of a dormitory at Kinisa Girls Nomadic Secondary School in Moyale.

We believe that this investment will drive the development of the next generation of youth who are financially handicapped.

Financial Literacy

Postbank believes that a higher level of financial literacy and savings education not only enriches the life of the individual but also contributes to healthy economic growth in the society. We believe that if Kenyans are empowered with financial knowledge, they are better positioned to make sound financial decisions that will go a long way in improving their economic wellbeing.

The Bank believes that access to finance is vital for poverty alleviation and social harmony and has therefore put financial inclusion as one of its priority focus areas. In the year, the Bank was able to undertake grass root initiatives and provided financial literacy sessions to various groups in the society ranging from youth groups and teaching staff in schools, colleges and universities, small and medium sized entrepreneurs to the county's disciplined forces.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT (Continued)

2018 Global Money Week
Postbank participated during the 2018 Global money week from 12-18th March 2018. This is in an effort to enhance financial literacy among the youth. The Bank engaged in a series of activities in partnership with the youth in selected schools and universities with the sole purpose of financial education.

HEALTH
"A healthy nation is a wealthy nation" The Bank takes health maters seriously and in the year partnered with several organizations in support of the wellbeing of the citizens. Postbank employees participated in "Mater Heart Run 2018", a charity event, which was hosted by the Mater Hospital in an effort to raise funds to assist children from families who cannot afford cost of cardiac surgery.
The Bank also heeded to calls by the Kenya National Blood Transfusion Service in Busia to donate blood and refreshment to donors during a blood donation drive. The donation was aimed at increasing reserves at the government's blood bank and hence help to save lives of the people in need. Postbank staff responded in large numbers to an appeal for blood donation in an effort towards reducing the current blood deficit in the country.

ENVIRONMENT
The Bank acknowledges her responsibility to the environment and to the local communities. In line with the National Tree Planting Campaign dubbed 'Panda Miti, Boresha Maisha', Postbank mobilized and planted over 1,200 trees in 2018. The Bank believes that through concerted efforts the country will increase forest cover from 6% to 10% in 5 years for the sake of future generations. We believe that every tree planted contributes to positive change within the environment. Through our greening efforts, Postbank took every opportunity to plant trees to mark special events for the Bank. The Bank planted trees in Kenya Medical Training Center Siaya, Kagira Primary School in Nairobi, NYS Tumaini Camp in Nyandarua, Muthurwa Primary School in Nairobi, Koiwa Cattle Dip in Bomet County, Gaturi Catholic Church Parish in Muranga, Mogongo swamp in Kisii and Kiohyo Health Centre in Kisii.
In addition, Postbank actively encourages staff in various locations to recycle and conduct environmentally friendly activities. In this regard, the Bank organized an ongoing donation of old newspapers and magazines to City Primary School - Autism Unit who recycle them for creative use.

DIRECTOR .... **MANAGING DIRECTOR** ....

__________ **March 2019**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended December 31, 2018, which show the state of the Bank's affairs.

Principal activities

The principal activities of the Bank during the year under review were primarily savings education and financial literacy, collection of funds from private and public enterprises and disbursement of funds for Government pensions and salaries in accordance with KPOSB ACT CAP 493B.

Results

The results for the year are as set out on pages **19 to 62**

Directors

The members of the Board of Directors who served during the year are shown on page 3 and 4

Auditors

The Auditor General is responsible for the statutory audit of Postbank in accordance with the Article 229 of the Constitution of Kenya and Public Audit Act 2015 for the period ended 31st December 2018.

By order of the Board.

for

Mr. Hannington Ouko
Company Secretary
Nairobi
Date:………

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations' Act requires the Directors to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results for that year. It also requires the Directors to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on 31st December 2018

This responsibility includes:
(i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
(ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
(iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; safeguarding the assets of the entity;
(iv) Selecting and applying appropriate accounting policies; and
(v) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act).

The Directors are of the opinion that the Postbank's financial statements give a true and fair view of the state of Postbank's transactions during the financial year ended December 31st, 2018, and of the Bank's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Bank, which have been relied upon in the preparation of the Bank's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Bank's financial statements were discussed and approved by the Board on ____________ 2019 and signed on its behalf by:

Managing Director
Ms. Anne W Karanja

for **Head of Finance**
Evelyn T Madigu
ICPAK Member No 6915

Director

REPORT OF THE AUDITOR GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31ST DECEMBER 2018

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTE
Anniversary Towe
Monrovia Stre
P.O. Box 30084-001
NAIRO

REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER, 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Post Office Savings Bank set out on pages 19 to 63, which comprise the statement of financial position as at 31 December, 2018 and statement of comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section on my report, the financial statements present fairly, in all material respects the financial position of Kenya Post Office Savings Bank as at 31 December, 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Kenya Post Office Savings Bank Act, CAP 493B and Public Finance Management Act, 2012 of the laws of Kenya.

Basis for Qualified Opinion

1. Overdue Accounts Receivable

As reported previously and as disclosed under Note 24 to the financial statements, the statement of financial position reflects accounts receivable balance of Kshs.2,637,847,618; (2017-Kshs.2,723,077,613). Included in the rent receivables balance of Kshs.66,069,753 is Kshs.47,113,844 owed by tenants who have since vacated the Bank's premises without recourse as provisioned for in the lease agreements being exercised. The likelihood of the amount being collected is doubtful, and adjustments necessary by way of provisions for the uncertainty have not been incorporated in the financial statements.

In the circumstances, the accuracy of the accounts receivable balance of Kshs.2,637,847,618 as at 31 December, 2018 could not be confirmed.

2. Customer Savings and Deposits

As disclosed under Note 28 to the financial statements, the statement of financial position reflects customer's savings and deposits accounts balance of Kshs.20,018,428,732; (2017 - Kshs.18,901,102,775). However, the supporting schedules provided reflects a balance of Kshs.20,124,809,988 resulting to an unexplained and unreconciled variance of Kshs.106,381,256.

Consequently, the accuracy of customer's savings and deposits accounts balance of Kshs.20,018,428,732 as at 31 December, 2018 could not be confirmed.

3. Property and Equipment

As disclosed under Note 26 to the financial statements, the statement of financial position reflects property and equipment balance of Kshs.2,360,260,775; (2017- Kshs.1,714,998,172). The following issues were observed:

3.1. Land without Title Deed

As previously reported, included in the Land balance of Kshs.854,500,000, is a parcel of land valued at Kshs.5,000,000 located in Dandora Phase II allotted to the Bank in 1993. Physical visit to the land during the audit revealed that it continues to remain unfenced and has since been encroached on by informal settlers. There is no evidence of actions taken by management to secure the land and obtain a title deed. The Bank's ability to access the land in the future as its rightful owner is doubtful.

3.2. Land in Dispute

Land Reference No. 209/11908(I.R No.59328) in Nairobi, Upper Hill, Mara Road, and registered in the Name of the Bank valued at Kshs.550,000,000 has its title deed encumbered (The encumbrance was registered vide a caveat dated 15 August, 2014 claiming interest absolutely). Available information indicates that this relates to an ongoing court case No.2834 of 1995 between the Bank and another. The outcome of the case had not been determined at of the date of the financial statements, however management has not disclosed this by way of contingent liability in the financial statements.

In the circumstance, the absolute ownership to the two parcels of land by the Bank could not be confirmed.

4. Motor Vehicle without Log Book

Also included in the property and equipment balance of Kshs.2,360,270,775 as at 31 December, 2018 are motor vehicles valued at Kshs.19,361,255. As reported previously, the motor vehicles schedule includes a motor vehicle registration number KAJ 078Y valued at Kshs.400,000 whose log book has not been issued to the Bank by the National Transport and Safety Authority (NTSA). This is despite the Bank having paid the requisite duty to register the vehicle in its own name in November, 1997.

In the circumstances, the accuracy of property and equipment balance of Kshs.2,360,270,775 as at 31 December, 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Post Office Savings Bank management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Material Uncertainty Related to Going Concern

The statement of comprehensive income reflects loss for the period of Kshs.1,589,099,239; (2017-loss of Kshs.1,364,952,385) resulting in further widening of the revenue reserve deficit to Kshs.12,588,190,816; (2017-Kshs.11,020,457,848). Further, the statement of financial position reflects total assets and liabilities balances of Kshs.14,083,708,567; (2017-Kshs.13,361,911,330) and Kshs.23,276,530,380; (2017-Kshs.21,932,184,649) respectively, resulting in negative shareholder's equity of Kshs.9,192,821,813; (2017- Kshs.8,570,273,319). I also draw attention to Note 2 (e) (i) on going concern which discloses the Bank's future performance is dependent on restructuring and government support in defraying the losses incurred from the year 2012 to 2018.

These conditions, along with other matters as set forth in Note 2 (e) (i), indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.
My opinion is not qualified in respect of this matter

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Adherence to One Third Rule of Basic Salary

Contrary to the provisions of Section 19(3) of the Employment Act, 2007, four hundred and twenty-eight (428) employees of the Bank out of the total six hundred and seventy-four (674) employees earned less than a third (1/3) of their basic pay. No explanation has been provided for the anomaly.

2. High Employee Cost

Contrary to the provisions of Section 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015 that requires compensation of employees not to exceed 35% of revenue, the Banks employee expenses amounted to Kshs.1,185,075,279 or 92% of the total revenue of Kshs.1,294,337,793.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Bank or to cease operations , or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Bank monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bank to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 August, 2020

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018 Kshs	2017 Kshs
Interest income	4	651,332,250	673,949,630
Interest expense	5	(680,513,100)	(567,955,405)
Net interest income		**(29,180,850)**	**105,994,225**
Fees and commission income	6	443,836,313	433,288,043
Fees and commission expense	7	(30,241,588)	(22,358,508)
Net Fees and commission income		**413,594,725**	**410,929,535**
Net trading income		**384,413,874**	**516,923,760**
Foreign exchange income	8	86,244,958	84,979,563
Other Operating income	9	112,924,272	121,578,878
Net Operating Income		**583,583,104**	**723,482,201**
Operating Costs			
Impairment loss on loans and advances	10	(12,000,000)	(13,000,000)
Employee expenses	11	(1,185,075,279)	(1,192,722,658)
Board expenses	12	(1,707,706)	(1,313,685)
Operating expenses	13	(402,037,162)	(411,076,442)
Depreciation expenses	26	(178,300,037)	(94,601,599)
Amortisation cost-Intangible Assets	27	(19,436,076)	(18,627,072)
Amortisation cost- Treasury Bonds	14	(17,569,116)	(22,122,908)
Other expenses	15	(356,556,968)	(334,970,222)
Total Operating Costs		(2,172,682,343)	(2,088,434,586)
Loss before income tax		**(1,589,099,239)**	**(1,364,952,385)**
Income tax expense*		0	0
Loss for the period		**(1,589,099,239)**	**(1,364,952,385)**

*The Bank is exempted from paying corporate taxes as per the Income Tax Act Cap 470 First schedule Part 1.

A total of Ksh18,113,116 was collected from tenants during the year, being service charge income, to defray common shared cost in maintaining Postbank buildings.

STATEMENT OF FINANCIAL POSITION

	Notes	2018 Kshs	2017 Kshs
ASSETS			
Cash	18	1,031,719,792	626,307,465
Funds on Call and Short Notice	19	62,707,843	35,579,852
Investment in Treasury Bills and Bonds	20	4,489,136,467	4,773,042,050
Investment Property	21	1,002,390,225	896,790,225
Stocks	22	13,147,187	12,993,081
Other Investments	23	3,986,875	4,124,000
Accounts Receivables	24	2,637,847,618	2,723,077,613
Prepayments & Other Assets	25	2,419,230,925	2,434,472,114
GOK Pension Reserve Fund	30		74,381,227
Property and Equipment	26	2,360,260,775	1,714,998,172
Intangible Assets	27	63,280,858	66,145,531
Total Assets		14,083,708,567	13,361,911,330
LIABILITIES			
Customer Savings and Deposits	28	20,018,428,733	18,901,102,775
Accounts Payables & Accruals	29	3,084,806,475	3,031,081,874
GOK Pension Reserve Fund	30	173,295,172	
Total Liabilities		23,276,530,380	21,932,184,649
SHAREHOLDERS' EQUITY			
Capital Grants	31	28,379,957	12,907,037
Revaluation Reserves		3,271,360,210	2,388,250,796
Change in Fair Value for Bonds AFS	30b	95,628,836	49,026,696
Revenue Reserves		(12,588,190,816)	(11,020,457,848)
Total Shareholders' Equity		(9,192,821,813)	(8,570,273,319)
TOTAL LIABILITIES & SHAREHOLDERS' EQUI		14,083,708,567	13,361,911,330

The financial statements on pages 18 to 59 were approved and authorised for issue by the Board of Directors on ______________ 2019 and were signed on its behalf by:

for **Managing Director**
Ms. Anne W Karanja

for **Head of Finance**
Evelyn T Madigu
ICPAK Member No 6915

Director

STATEMENT OF CHANGES IN EQUITY

	Capital Grants	Revaluation Reserves	Change in Fair value	Revenue Reserves	TOTALS
	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st January 2017	12,907,037	2,388,250,796	27,098,028	(9,599,351,297)	(7,171,095,436)
Loss for the year				(1,364,952,385)	(1,364,952,385)
Additions of Treasury Bond during the year.-AFS			21,928,668		21,928,668
Prior year adjustments				(56,154,166)	(56,154,166)
At 31st December 2017	**12,907,037**	**2,388,250,796**	**49,026,696**	**(11,020,457,848)**	**(8,570,273,319)**
At 1st January 2018	**12,907,037**	**2,388,250,796**	**49,026,696**	**(11,020,457,848)**	**(8,570,273,319)**
Loss for the year				(1,589,099,239)	(1,589,099,239)
Additions of Capital grant during the year (i)	15,472,920				15,472,920
Revaluation surplus-Property and Equipment (ii)		883,109,414			883,109,414
Change of Treasury Bond during the year -AFS			46,602,140		46,602,140
Prior year adjustments (iii)				10,868,671	10,868,671
Prior year adjustments (iv)				10,497,600	10,497,600
At 31st December 2018	**28,379,957**	**3,271,360,210**	**95,628,836**	**(12,588,190,816)**	**(9,192,821,813)**

(i) Addition of Capital grant relate to receipts from World Savings Bank International on 28th December 2018.
(ii) The Bank revalued it's Property and Equipment in December 2017
(iii) Prior year adjustment of Kshs 10,868,671 relates to receipts from ailing Institutions -Trust Bank during the year
(iv) Prior year adjustment of Kshs 10,497,600 relates recovery of NSSF contributions from Pension scheme

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2018 Kshs	2017 Kshs
Profit/(Loss) for the year		(1,589,099,239)	(1,364,952,385)
Adjustments for:-			
Depreciation		197,736,113	113,228,671
Rental Income	9	(73,651,146)	(86,557,526)
Dividend income	9	(7,363)	(23,940)
Appreciation/Diminution in value of quoted investments	9	137,125	(431,600)
Prior year adjustments		21,366,271	(56,154,166)
Operating profit/(loss) before working capital changes		(1,443,518,239)	(1,394,890,946)
(Increase)/ Decrease in Accounts Receivables & Prepayments		100,471,185	336,945,458
(Increase)/Decrease in stocks		(154,106)	3,805,783
Increase/(Decrease) in Accounts Payables & Accruals		53,724,601	250,299,693
Increase/(Decrease) Customer Savings and deposits		1,117,325,957	956,437,922
Increase/(Decrease) GoK Pension Reserve fund account		247,676,399	(258,323,258)
Net cash flows from operating activities		**75,525,797**	**(105,725,348)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property and Equipment	26	(62,624,630)	(21,383,150)
Write back on Depreciation		0	(692,944)
Change in fair Value for Bonds AFS	20	46,602,140	21,928,668
Rental income		73,651,146	86,557,526
Dividend Income		7,363	23,940
Net cash flows from investing activities		**57,636,019**	**86,434,040**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from WSBI	31	15,472,920	0
Net cash flows from financing activities		**15,472,920**	**0**
Net increase in cash and cash equivalents		148,634,736	(19,291,308)
Cash and cash equivalents at the beginning of the year	32	5,434,929,367	5,454,220,675
Cash and cash equivalent at the end of the year	32	**5,583,564,103**	**5,434,929,367**

The notes on pages 24 to 62 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

	Actual	Budget	Variance	
	Kshs	Kshs	Kshs	%
Interest income	651,332,250	720,602,344	(69,270,094)	-10%
Interest expense	(680,513,100)	(600,000,000)	(80,513,100)	13%
Net interest income	**(29,180,850)**	**120,602,344**	**(149,783,194)**	**<100%**
Fees and commission income	443,836,313	648,745,812	(204,909,499)	-32%
Fees and commission expense	(30,241,588)	(28,862,876)	(1,378,712)	5%
Net Fees and commission income	**413,594,725**	**619,882,936**	**(206,288,211)**	**-33%**
Net trading income	**384,413,874**	**740,485,280**	**(356,071,406)**	**-48%**
Foreign exchange income	86,244,958	99,067,092	(12,822,134)	-13%
Other Operating income	112,924,272	222,849,500	(109,925,228)	-49%
Net Operating Income	**583,583,104**	**1,062,401,872**	**(478,818,768)**	**-45%**
Operating Costs				
Impairment loss on loans and advances	(12,000,000)	(12,000,000)	0	0%
Employee expenses	(1,185,075,279)	(1,073,851,804)	(111,223,475)	10%
Board expenses	(1,707,706)	(11,520,700)	9,812,994	-85%
Operating expenses	(402,037,162)	(504,970,004)	102,932,842	-20%
Depreciation expenses	(178,300,037)	(120,467,060)	(57,832,977)	48%
Amortisation cost-Intangible Assets	(19,436,076)	(28,399,451)	8,963,375	-32%
Amortisation cost- Treasury Bonds	(17,569,116)	(19,683,996)	2,114,880	-11%
Other expenses	(356,556,968)	(391,714,500)	35,157,532	-9%
Total Operating Costs	**(2,172,682,343)**	**(2,162,607,515)**	**(10,074,828)**	0%
Loss before income tax	**(1,589,099,239)**	**(1,100,205,643)**	**(488,893,596)**	**44%**
Income tax expense*	0	0	0	-
Loss for the period	(1,589,099,239)	(1,100,205,643)	(488,893,596)	44%

*The Bank is exempted from paying corporate taxes as per the Income Tax Act Cap 470 First schedule Part 1.

1 GENERAL INFORMATION

Kenya Post Office Savings Bank (Postbank) is established under an Act of Parliament CAP 493B of the laws of Kenya, and is domiciled in Kenya and is wholly owned by the Government of Kenya

Postbank is primarily engaged in the mobilization of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B. In addition, the Bank offers other financial services such as remittance, collections and disbursement services.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS). The financial statements were authorised for issue by the Board on 21st January, 2019.

The financial statements comprise of statement of comprehensive income, statement of financial position, statement of changes in reserves, statement of cash flows, and notes.

b) Basis of Measurement

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) based on the historical cost convention. The bank revalued its property and equipment in December 2017.

c) Functional and Presentation Currency

These financial statements are presented in Kenya shillings (Kshs), which is the company's functional currency. Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings.

d) Use of Estimates and Judgment's

The preparation of financial statements requires management to make judgment's, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses.

The estimates and assumptions are reviewed on an ongoing basis. Revision to estimates are recognized prospectively

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Assumptions and Estimation of Uncertainties

(i) Going concern

The Bank operates with the intention of being in business in the next 12 months and in the foreseeable future. The management runs the day to day activities by ensuring that assets are realized and liabilities honoured in the normal course of business.

However, the Bank's future performance is dependent on restructuring andgovernment support in defraying the incurred losses from the year 2012 to 2018 amounting to Kshs. (12,578,875,332) in accordance with KPOSB Act cap 493B section 13 (1).

Note 10- Impairment loss on deposits, loans and advances

Note 2.2 (s)- Recognitions and measurement of contingencies: Key assumption about the likelihood and magnitude of an outflow of resources

(ii) Critical judgment in applying the entity's accounting policies 1.28E+09

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

In accessing the need for collective loss allowances, management considers factors such as:

- Credit quality
- Portfolio size
- Concentrations
- Economic factors

Note 26- Depreciation of equipment and intangible assets. The Bank reviews the useful life of its property and equipment and intangible assets at the end of each financial period

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures

New standards and interpretations not yet adopted

IFRS 16: Leases

The standard, which was issued in January 2016, will upon implementation result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed.
IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. The accounting for lessors will not significantly change.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below

a) Leases in which the Bank is a lessee

The Bank has completed an initial detailed assessment of the potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 on the financial statements for the financial year ending 31 December 2019 will depend on:

i) the final reconciliation of the of the Bank's leases' portfolio
ii) the Bank's assessment of whether it will exercise any lease renewal options; and
iii) the extent to which the Bank chooses to utilise practical expedients and recognition exemptions available under the standard

The Bank will recognise new assets and liabilities for its operating leases of Group premises and equipment. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to Shs 115 million

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
f) Changes in accounting policies and disclosures (continued)
New standards and interpretations not yet adopted

IFRS 16: Leases (continued)
b) Transition

The transition provisions of IFRS 16 allow an entity not to restate comparatives. The Bank will elect not to restate comparatives but instead adopt IFRS 16 on 1 January 2019 using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank has assumed an average incremental rate of 10% on all its operating leases.

New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018
i) IFRS 15 Revenue from Contracts with Customers
ii) IFRS 9 Financial Instruments
iii) Annual Improvements 2015-2016 cycle
iv) Transfers of investment property – amendments to IAS 40
v) Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Bank changed its accounting policies and made certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
f) Changes in accounting policies and disclosures (continued)

New and amended standards adopted by the Bank (Continued)
IFRS 15 revenue from Contracts with Customers (IFRS 15)

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). It replaced the existing revenue standards and their related interpretations

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in thecontracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration of which the entity expects to be entitled in exchange for those goods or services. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

Because the standard does not apply to revenue associated with financial instruments, it does not impact the majority of the Bank's revenue streams. The Bank has reviewed the contracts with customers within the scope of IFRS 15 and concluded that the adoption of IFRS 15 did not have a material impact on the Bank's revenue recognition criteria and there were therefore no transition adjustments required.

IFRS 9 - Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition will recognised in the opening retained earnings and other reserves of the current period. The comparative financial information was prepared on an IAS 39 basis while the 2018 information is presented under IFRS 9 basis.

The Bank is still accessing the impact of IFRS 9 on its financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2-Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements have been applied consistently over the years

a) Revenue Recognition

Income is recognised on an accrual basis

i) Interest

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basi
- Interest on available-for-sale investment securities on an effective interest basis; and
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

ii) Fees and commission income

Fees and commission income and expense are recognised on an accrual basis when the service has been provided .Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate

Other fees and commission income, including account servicing fees, are recognised as the related services are performed

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date.
The resulting differences from conversion and translation are dealt with in the statement of comprehensive income in which they arise

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions if any. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined if there is any.

c) Employee benefits

The Bank operates a defined contribution scheme whose funds are held in a separate trustee administered and guaranteed scheme managed by an approved investment company. The pension plan is funded by contributions from the employees and the Bank. The bank's contributions are charged to profit or loss in the year to which they relate.

d) Property, plant and equipment

(i) Investment Property ####

The Bank has classified some of its Properties according to IAS 40 –Investment Properties. The standard recognizes properties which are solely held for rental purposes or capital appreciation in the long term or both. For mixed use property, those partly occupied by the owner and partly rented out, the percentage of occupation determines its classification as per the IAS 40.10. If the percentage is significant then it falls under Plant, Properties and Equipment (PPE) but where insignificant it falls under Investment Properties.

Though the standard is silent on definition of significant, the assumption of materiality will guide while determining the threshhold. Anything greater than 10% will greatly influence the decision maker. In the case of the Bank, the percentage of usage for Karura Training centre, Upper Hill properties and Dandora Plot is insignificant, hence classified under Investment Properties contrary to owner occupation at Postbank House Nairobi (49%); Postbank Mombasa (25%); Postbank Nakuru (50%); and Postbank Eldoret (100%) which is significant, and falls under Plant Property and Equipment (PPE).

Equally the International Accounting Standard (IAS 16) – considers Plant, Properties and Equipment (PPE) as tangible assets held for use in production or supply of goods or services, for rentals to others, or for administrative purposes and are expected to be used for more than one period. The standard also allows a choice of accounting model to use either cost model or revaluation model. In our case we opted for revaluation model.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment

(ii) Revaluation and Cost Model

The Bank has used the Revaluation and depreciating model for Land and Buildings while for all other classes of assets, Cost and depreciating model has been applied as per IAS 16.

(iii)Property and Equipment and Depreciation

Leasehold properties for which the lease has 99 years or more to run are stated at cost or valuation and are not depreciated. Other assets are stated and depreciated at cost.
Depreciation is calculated on a straight-line basis, at rates estimated to write off the assets over their expected useful lives.

The following depreciation rates are used:

Category	Rate p.a.	
Buildings	2.5%	
Show stands	20.0%	
Motor vehicles	25.0%	
Furniture and fittings	12.5%	
Electronic office equipment	20.0%	
Non-electronic office equipment	12.5%	
Computer hardware	20.0%	
Computer software	20.0%	

(e) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computers software products controlled by the bank are recognised as intangibleassets.

f) Amortisation and impairment of intangible assets

Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using annual rate of 20%.

g) Stocks

Stocks comprise of stationery and drugs in the staff clinic which are valued at cost.

h) Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement comprise cash and bank balances net of bank overdraft, deposits in commercial banks and financial institutions and Treasury bills, treasury and corporate bonds as at the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securitiesexchanges. Quoted investments are stated at fair value

k) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

l)Taxation

The Bank is exempted from paying corporate taxes as per the Income Tax Act Cap 470 First schedule Part 1.

m) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

n) Retirement benefit obligations

The bank operates a retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by a Fund Manager. The contributions made by the Bank both to the Defined Benefit and Defined Contribution retirement scheme and to the Provident Fund are charged to the profit and loss account in the year of contribution.
From year 2011, the Bank and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

p) Foreign Currency Transactions

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the bank operates), which is Kenya Shillings. Foreign currency transactions during the year are converted into Kenya shilling equivalent at rates ruling at the transaction date.
Assets and liabilities at the statement of financial position date which are expressed in foreign currency are translated into Kenya shillings at the rates ruling at the transaction date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

q) Revaluation Reserve

The revaluation reserve relates to property and equipment. The reserve is non-distributable. Revaluation reserves are made up of periodic adjustments arising from fair valuations of Property and equipment. Movement in the revaluation reserve are shown in the statement of changes in equity is Kshs 2,898,740,877

The Bank revalued Land, Buildings, Motor Vehicles, Furniture & Fittings, Electronic Office Equipment's, Non Electronic Office Equipment's and Computer Hardware on an open market basis by professional valuers, Realty Valuers East Africa Limited as at 29th December 2017. The book values of the properties were adjusted to the revaluations, and the resulting surplus, was credited to the revaluation reserve.

r) Revnue Reserve

This represents undistributed profits/accumulated losses from current and previous years including prior year adjustments. The accumulated loss as at 31st December 2018 is Kshs (12,578,875,332).

s) Contingent Liabilities

Litigation is a common occurrence in the banking industry due to the nature of the business. Although there may be no assurance, the Directors believe based on the information available and advice from the legal experts that the claims will be defended successfully and therefore no provision has been made in the financial statement.
The significant claims are described below:

(i) Adella Kavisa & 73 others -vs-PostBank: Kshs. 166,084,453/= pension claim from retirees. It is not expected to be finalized next year.
(ii) PostBank - vs - Simiyu Wasike: The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill. The value of the property was Kshs. 319,200,000 in the year 2011.
(iii) Other staff suits against the Bank sums to Kshs 19,928,087.00
(iv) Kshs 1.3 billion arising out of avderse judgement issued on disputed mater involving KPOSB Staff Rerirement Scheme property (Karen/Langata)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Budget information

The original budget for FY 2018 was approved by the National Treasury on 19th January 2018. No Subsequent revisions or additional appropriations were made duting the period

The bank uses Zero-based budgeting (ZBB). All expenses must be justified for each new period. The budgeting starts from a "zero base," and every function within an organization is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period. This allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations. At the end of every month actual and budgeted amount is compared to obtain variances. The presentation of budget information in Financial Statements is done as per International Public Sector Accounting Standard (IPSAS) 24.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.
A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under the section of Statement of Comparison of Budget and Actual of these financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Kenya shillings, which is the Bank's presentation currency

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

2.4 Financial instruments

a) Recognition

The Bank initially recognises loans, advances, deposits and debt securities on the date at which they are originated.
Purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset.
A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

b) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. These include advances to staff, Visa credit to customers and placements with other banks. Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include Treasury Bills, Treasury Bonds and Government Stock.

iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

iv) Available-for-sale (continued)

Available-for-sale financial assets and financial assets are carried at fair value through profit or loss. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets category are included in the statement of comprehensive income in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the statement of comprehensive income.

As per IAS 39, financial instruments are supposed to be classified as Held-to-maturity and Available- for-sale. However, the Bank has classified all its financial instruments as Held-to-maturity since the Bank has no intention of selling the instruments.

v) Identification and Measurement of Impairment of Financial Assets

At each statement of financial position date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

v) Identification and Measurement of Impairment of Financial Assets (Ccontinued)

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the statement of comprehensive income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of comprehensive income.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

vii) Impairment for Non-Financial Assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.
Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

viii) Budget Accounting Policy

The bank uses Zero-based budgeting (ZBB). All expenses must be justified for each new period. The budgeting starts from a "zero base," and every function within an organization is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period. This allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations. At the end of every month actual and budgeted amount is compared to obtain variances. The presentation of budget information in Financial Statements is done as per International Public Sector Accounting Standard (IPSAS) 24.

3 FINANCIAL RISK MANAGEMENT

a) Principles

Postbank faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risks, the quantification of the Banks's risk exposure, actions to limit risk and the constant monitoring of risk.
The overarching aim of risk management is to ensure that all risks assumed in the course of the Bank's business are recognized early on and mitigated by effective risk management. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Bank. Risk management and monitoring are implemented via the Bank's risk management and risk control process and the organization structure corresponds to prudent Risk Management Guidelines.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Principles (Continued)

In order to ensure continuous improvement of risk management at all times the following key risk principles have been adopted and are applied;

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Bank and is responsible to oversee the effective implementation of the risk strategies.
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Bank and divisional levels, as well as by enforcing consistent operating limits for individual business activities.
- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate and effective controls exist for all processes entailing risks.

All these principles are enshrined in the Bank's risk management policy.

The section below provides the various risks faced by the Bank and describes the methods used by management to control risk. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk mainly interest risk and operational risk.

(b) Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(i) Management of Credit Risk

The Bank is subject to credit risk through its lending and investing activities. Considerable resources, expertise and controls are devoted to managing it and comprehensive strategies, policies and procedures have been developed to effectively manage this risk.
The Bank's primary exposure to credit risk arises through its advances to employee and Visa credit to customers. Credit risk ratings are assigned to customers to enable the bank to establish the risk and enable credit decisions to be undertaken within acceptable risk appetite threshold through its credit policy.
At the management level there, is a credit risk department staffed with highly skilled personnel who ensure credit risk are identified and mitigated. Within this department there are debt collecting officers who follow up on bad loans.

(ii) Write-off Policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when management determines that the advances / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure

(c) Liquidity Risk

#######

Liquidity risk is the current or prospective risk to earnings and capital arising from the institution's failure to meet its maturing obligations when they fall due without incurring unacceptable losses.
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has access to a diverse funding base. Funds are raised mainly from deposits.

3 FINANCIAL RISK MANAGEMENT(CONTINUED)

(c) Liquidity Risk (continued)

Exposure to liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month.
The board has approved a policy to effectively manage liquidity at all times to meet depositors demand, and unexpected outflow. The investment undertakes statement of financial position liquidity and scenario analysis as per the policy on bi-monthly basis.
The bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with range maturities, in addition the bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(d) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Management of market Risk ####

Overall responsibility for management of market risk rests with a management committee of the Bank, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.
Regular monitoring of Postbank's risk profile against risk appetite limits e.g. foreign exposure and risk limits, liquidity and solvency ratios which are contained in the market risk framework incorporating market and country risk policies approved by the board.

ii) Exposure to Interest Rate Risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps.

3 FINANCIAL RISK MANAGEMENT(CONTINUED)

(e) Operational Risk

The Operational risk is a risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Bank standards for the management of operational risks. Compliance with these standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Risk Committee and senior management of the Bank.

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control groups to ensure compliance with the Bank's risk policy. The Bank's risk exposure limits are assessed regularly to ensure their appropriateness given the Bank's objectives and strategies and current market conditions

	2018	2017
4 Interest Income	**Kshs**	**Kshs**
Interest on Treasury Bills/Bonds	602,887,634	622,718,851
Interest on Term Deposits	4,282,160	3,482,652
Interest on Staff Loans	37,920,725	44,664,770
Interest on Visa Balances	6,241,731	3,083,357
	651,332,250	673,949,630

5 Interest expense		
Interest on:-		
Bidii Savings Account	243,111,383	207,069,667
Step Account	20,586,561	15,374,354
Pension Account	115,469,203	87,364,077
Premium Savings Account	64,514	235,063
Premium Plus Account	263,405,820	231,211,152
Fixed Deposit Account	928,599	1,951,218
Save As You Earn Account	7,480,783	5,091,946
Staff Salary Account	1,387,516	1,233,880
Salary Account	6,780,019	5,112,185
Postbank Junior Account	34,256	83,424
Pamoja Account	2,440,440	1,746,619
Bidii Junior Trustee Account	225,188	155,267
Smata Youth Save	5,659,632	3,799,970
Waridi Account	11,014,849	7,055,150
M-Chama Account	1,693,732	408,093
Mobile Savings Account	42,541	24,215
Akiba Account	42,427	39,125
Inua Jamii	145,637	0
	680,513,100	567,955,405

		2018	2017
6	**Fees & Commissions Income**	**Kshs**	**Kshs**
	Inactivity Fees	16,703,338	14,267,290
	Salary Crediting Fees	22,956,015	14,225,491
	Premature withdrawal Fees	31,363,100	28,052,993
	Withdrawal Fees	59,633,865	55,820,960
	Visa Fees	3,439,506	6,185,624
	Card Fees	26,851,121	24,043,428
	Western Union - MTS Commission	35,368,224	54,330,818
	Citibank Commission	534,240	541,140
	Pension commission	65,639,800	69,203,500
	Money Transfer Commission (Others)	25,858,745	25,218,989
	ATM withdrawal Fees	38,322,270	46,492,904
	Bills Commission-Water & Electricity	26,723,584	29,174,386
	Credit Partners Loan Commission	82,401,764	49,788,303
	Miscellaneous Fees & Commission (others)	8,040,742	15,942,217
		443,836,313	433,288,043

7	**Fees and Commissions Expense**		
	Shared Costs Adjustments	8,926,416	7,329,482
	Commission Expense-Money gram	2,739,755	4,524,564
	Premium Paid Commission on Purchase of T/Bonds	356,880	446,232
	Commission-Independent Agent	47,418	80,044
	Mobile banking Expenses	8,804,120	0
	Commission paid on deposit mobilisation	9,366,999	9,978,186
		30,241,588	22,358,508

8	**Foreign Exchange Income**		
	Realised Gain/Loss On Sale Of Forex From Wu	2,828,508	8,725,382
	Forex Gain On Money Transfer Transactions	64,234,292	57,249,802
	Forex Gain On Transactions(Money Gram)	19,182,158	19,004,379
		86,244,958	84,979,563

		2018	2017
9	**(a) Other Operating Income**	**Kshs**	**Kshs**
	Rental Income	73,651,146	86,557,526
	Dividend income	7,363	23,940
	Interest on bank accounts	12,253	740,884
	Tender fees	56,200	243,200
	Development Levy	0	309,000
	Appreciation/Diminution in value of quoted investments	(137,125)	431,600
	Mobile Banking Fee	14,861,515	9,031,992
	Capital Gain on Sale of Investments	10,441,714	8,831,448
	Commission Income on Foreign Visa	1,252,000	415,250
	Sundry income	12,779,206	14,994,038
		112,924,272	121,578,878

Disclosure note

(b) Extra Ordinary Income

The Extra Ordinary Income is made up of the following:

	2018	2017
Receipt from Ailing Institution – Trust Bank	10,868,671	17,778,929
Recovery of NSSF contibution from Pension Scheme	10,497,600	
Receipt from Ailing Institution – Postbank Credit Ltd		44,297,562
Total	21,366,271	62,076,491

		2018	2017
10	**Impairment Loss on Deposits, Loans and Advances**		
	Customers deposit	4,000,000	5,416,667
	Visa card debtors	4,000,000	5,416,667
	General Provisions-Including Staff loans	4,000,000	2,166,666
		12,000,000	13,000,000
11	**Employee Expenses**		
	Salaries and Wages	773,969,986	787,776,065
	Pensions and Provident Fund contr.	90,502,123	93,519,776
	Medical expenses	47,815,073	55,720,405
	Staff training	18,917,424	9,165,292
	Other staff expenses	253,870,673	246,541,120
		1,185,075,279	1,192,722,658
12	**Board Expenses**		
	Directors Honoraria	0	80,000
	Directors Allowances	1,665,366	1,189,325
	Directors Allowances Telephone	42,340	44,360
		1,707,706	1,313,685

13 Operating Expenses

	2018 Kshs	2017 Kshs
Security expenses	102,230,233	103,285,416
Insurances	11,246,709	15,156,163
Office rent	111,446,045	118,673,066
Land rent and rates	1,720,041	433,165
Repairs and maintenance	59,958,603	52,051,801
Service charge	14,279,385	9,681,612
Agency fees – MTS	16,897,768	21,071,140
Licences	81,458,237	89,158,042
Grounds maintenance	1,259,993	1,273,010
Agency Expansion Project (WSBI)	1,540,148	293,027
	402,037,162	411,076,442

14 Amortisation for Bonds Trading Cost

Amortisation	17,569,116	22,122,908

This relates to Treasury Bonds Premiums amortised during the period

15 Other Expenses

Travel and Subsistence allowances	23,156,172	19,544,241
Printing and stationery	6,818,641	7,551,323
Debt collection	1,250,000	100,680
Postage & telephone	78,803,585	92,500,906
Computer expenses	12,407,221	10,944,629
Motor Vehicle Expenses	7,282,959	3,450,194
Audit fees	7,945,666	4,500,000
Donations and subscriptions	7,563,694	5,362,858
Legal and professional fees	19,219,888	18,012,582
Electricity and water	24,766,116	31,471,096
Cleaning, Sanitation & Messengerial	20,630,131	22,262,450
Special Projects Launching	252,185	4,199,601
Newspapers and Periodicals	801,106	728,286
Procurement Costs	340,259	638,719
Excise Duty	15,743,374	14,322,019
Financial expenses	6,789,954	5,811,854
Selling & Marketing expenses	59,769,240	65,058,138
Operating Stationery	1,981,118	2,998,391
Hire of Motor Vehicles	12,510,597	8,301,352
ATM Card Cost	40,091,017	10,120,151
Research & Development	170,300	0
Retail Banking-Search fee	26,771	
Miscellaneous expenses		7,090,752
Integrated Reimbursement fee	8,236,974	
	356,556,968	334,970,222

16 **Profit (Loss) For The Year**	**2018 Kshs**	**2017 Kshs**
The loss for the year is stated after charging:		
Directors emoluments	1,707,706	1,313,685
Audit fees	7,945,666	4,500,000
Depreciation/amortization intangible asset expense	197,736,113	113,228,671
Bonds amortisation cost	17,569,116	22,122,908
Pension scheme contribution	90,502,123	93,519,776
and after crediting: -		
Dividends	7,363	23,940
Diminution in value of quoted investment	(137,125)	431,600

17 Explanation Of Material Variance on The Statement of Comparison of Budget and Actual for The Twelve Months Ending 31 December 2018

Income	Actual Kshs	Budget Kshs	Variance Kshs	%
a) Interest income	651,332,250	720,602,344	(69,270,094)	-10%
b) Fees and commission income	443,836,313	648,745,812	(204,909,499)	-32%
c) Other Operating income	112,924,272	222,849,500	(109,925,228)	-49%

Decline in interest rate in Government securities from 13.5 % in 2017 to 13% in 2018

Direct Expenses	Actual	Budget	Variance	%
e) Interest expense	(680,513,100)	(600,000,000)	(80,513,100)	13%

Growth of interest expense was due to giving interest to depositors in the range 1-20,000 which previously did not attract interest.

Recurrent Expenses	Actual	Budget	Variance	%
f) Board expenses	(1,707,706)	(11,520,700)	9,812,994	-85%
g) Operating expenses	(402,037,162)	(504,970,004)	102,932,842	-20%
h) Depreciation expenses	(178,300,037)	(120,467,060)	(57,832,977)	48%
i) Amortisation cost-Intangible Assets	(19,436,076)	(28,399,451)	8,963,375	-32%

Cost control management and lower purchase of assets than anticipated

		2018	2017
18	**Cash and Cash Equivalents**	**Kshs**	**Kshs**
	Cash on Hand	294,152,161	320,262,698
	Cash at Bank	737,567,631	306,044,767
		1,031,719,792	626,307,465

Bulk of cash at bank was held at Kenya Commercial Bank of Kenya and National Bank of Kenya who are the Bank's main bankers

19 Funds on Call and Short Notice

Commercial Bank of Africa	10,900,000	14,066,155
Citibank	15,027,001	10,900,000
National Bank of Kenya	10,608,296	10,004,193
Kenya Commercial Bank of Kenya	26,172,545	609,504
	62,707,843	35,579,852

The Bank has placed some of its funds in call accounts with commercial banks as as listed above
For the year under review, the funds were invested at the following interest rates

BANK	RATE
Commercial Bank of Africa	7%
Citibank	7%
National Bank of Kenya	7%
Kenya Commercial Bank(K)	7%

20 Investment in Treasury Bills & Bonds /Others

GoK Treasury Bonds-Available For Sale	1,609,407,467	1,556,185,550
Kengen Infrastructure Bond	59,712,500	119,425,000
Jamii Bora Bond	20,000,000	20,000,000
GoK Treasury Bonds - HTM	2,800,016,500	3,077,431,500
	4,489,136,467	4,773,042,050

20 (a) Investment in Treasury Bills and Bonds /Others

ASSET	Balance On 01.01.2018	Additions In The Year 2018	Increase/ Decrease Revaluation Adjustment In Year 2018	Disposal/ Redemption In Year 2018	Balance On 31.12.2018
	Kshs	Kshs	Kshs	Kshs	Kshs
KENGEN Infrastructure Bond	119,425,000			(59,712,500)	59,712,500
Jamii Bora Bond	20,000,000				20,000,000
GOK Treasury Bonds-Held to maturity	3,077,431,500			(277,415,000)	2,800,016,500
GOK Treasury Bonds-Available for sales	1,556,185,550	706,442,922	48,843,466	(702,064,470)	1,609,407,467
Total	**4,773,042,050**	**706,442,922**	**48,843,466**	**(1,039,191,970)**	**4,489,136,467**

20 (b) Change in Fair Value for Bonds AFS

Balance On 01.01.2018	Capital Gains Transfer	Revaluation Increase	Balance On 31.12.2018
Kshs	Kshs	Kshs	Kshs
49,026,696	(2,241,346)	48,843,486	95,628,836

Capital gains figure on sale of bonds will be adjusted
The effective weighted average rate of interest in respect to the above investments in year 2018 was

KENGEN Infrastructure Bond	12.50%
Jamii Bora Bond	13.30%
Government of Kenya Treasury Bonds-HTM	12.65%
Government of Kenya Treasury Bonds-AFS	12.92%

	2018 Kshs	2017 Kshs
21 Investment Property		
Cost		
At 1 January	896,790,225	896,790,225
Revaluation surplus	105,600,000	0
At 31 December	1,002,390,225	896,790,225
Amortisation		

Included in the investment Property is

(i) Upper Hill Property whose market value is Ksh.550,000,000 (as per revaluation done in December 2017) but carried at book value of Ksh 27,390,225. Title to the Upper Hill property is in dispute with the current occupant of the premises claiming allotees interest absolutely. The matter is in court and the Bank expects a favourable outcome since it has a vesting right in the property and is holding it with an intention of selling or reinvesting.
The property is a piece of land with a building taken over from Thabiti Finance Ltd in lieu of deposits held for the Bank

(ii) Karura Training & Sports Complex valued at Ksh 970,000,000 as per the latest valuation report undertaken by Realty Valuers East Africa Limited as at 29th December2017

(iii) Dandora Plot with a value of Ksh 5,000,000.

The reclassification of Dandora Plot and Karura Training centre from Property and Equipment to Investment property has been done as per IAS 40.

	2018 Kshs	2017 Kshs
22 Stocks & Drugs		
Stationery	9,336,165	11,964,229
Drugs	3,811,022	1,028,852
	13,147,187	12,993,081
23 Other Investments		
Quoted investments (cost)	2,055,637	2,055,637
Unquoted investment	13,540,000	13,540,000
	15,595,637	15,595,637
Less: Provision for diminution in market value of quoted /unquoted investments	(11,608,762)	(11,471,637)
	3,986,875	4,124,000

(i) Quoted investments were valued at Kshs.**2,632,875** (2017 Kshs.2,770,000) using the Nairobi Securities Exchange market price at the close of the year.

Quoted investments comprise of equity holdings in the following listed companies:

			Value as at	
Company	**No.of Shares**	**Market price**	**31.12.2018**	**31.12.2017**
Kakuzi Ltd	6,500	310.00	2,015,000	2,138,500
Total Kenya Ltd	15,000	27.50	412,500	352,500
Bamburi Cement Ltd	1,550	132.50	205,375	279,000
			2,632,875	**2,770,000**

(ii) Unquoted investment represents 80% of deposits in City Finance Bank (Jamii Bora Bank) converted into shares following their restructuring in year2000.

		2018	2017
24	**Accounts Receivables**	**Kshs**	**Kshs**
	Postal Corporation of Kenya-Excess Deposits	780,394,108	780,394,108
	GOK-(KP&TC) (i)	405,231,629	405,231,629
	Commission Receivable from GoK Pensioners	62,072,890	40,853,890
	Prepaid GoK Pension – PCK Payroll	608,037,586	512,767,484
	GoK Pension Cheques Receivable – PCK (ii)	268,553,158	268,553,158
	PCK Overdrawn Claimable	47,540,581	47,643,590
	Restitution (PCK)	56,748,615	58,847,809
	Directors Loans	3,327,044	3,327,044
	Staff loans	769,980,304	847,777,925
	Staff debtors – Personal Development Loan	116,231,349	138,267,614
	Interest Receivable -PDL	104,794,405	106,157,285
	Rent Receivables	66,069,753	60,203,935
	Staff Imprest	6,013,379	3,975,485
	Trade Debtors	32,476,540	126,700,382
		3,327,471,343	3,400,701,338
	Provision for bad and doubtful debts	(689,623,725)	(677,623,725)
		2,637,847,618	2,723,077,613

(i) Kshs. 405,231,629 relates to amount owing from the defunct KP&TC and has been outstanding since year 2005. The Government of Kenya has since given assurance of settlement of the amount, in effect through PCK

(ii) Kshs.268,553,158 relates to amount owed to Postbank by PCK in respect to pension's cheques and warrants handled by PCK on an agency agreement. This amount has been outstanding since year 2007 and the two organizations have made commitments to offset these amounts in the next financial year

24 Accounts Receivables

31ST DECEMBER 2018	TOTAL	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 and over Days
PCK Excess Deposits	780,394,108	0	0	0	780,394,108
KP&TC Excess Deposits	405,231,629	0	0	0	405,231,629
GoK Pension Cheques Receivable from PCK	62,072,890	10,797,800	10,332,800	(27,769,100)	68,711,390
Prepaid GoK Pension (Payroll) – PCK	608,037,586	8,404,567	8,404,367	8,447,533	582,781,119
GoK Pension Cheques Receivable – PCK	268,553,158	0	0	0	268,553,158
PCK Overdrawn Claimable	47,540,581	0	0	(103,000)	47,643,581
Restitution (PCK	56,748,615	0	0	0	56,748,615
Directors Loans	3,327,044	0	0	0	3,327,044
Staff loans	769,980,304	14.670,245	(14,174,520)	(7,473,531)	776,958,110
Staff Debtors PDL	116,231,349	(2,259,729)	(448,500)	(1,217,613)	120,157,191
Interest Receivable PDL	104,794,405	(3,570,552)	(1,669,682)	(862,186)	110,896,826
Rent Receivables	66,069,753	2,041,960	(1,870,580)	14,499,127	51,399,246
Staff Imprest	6,013,379	1,471,324	(263,855)	(4,375)	4,810,285
Trade Debtors	32,476,540	(391,734,665)	407,866,929	25,770,101	(9,425,825)
TOTAL RECEIVABLES	**3,327,471,343**	**(360,179,050)**	**408,176,959**	**11,286,957**	**3,268,186,476**
Provision for bad debts	(689,623,725)	(1,000,000)	(1,000,000)	(1,000,000)	(686,623,725)
NET RECEIVABLES	**2,637,847,618**	**(361,179,050)**	**407,176,959**	**10,286,957**	**2,581,562,752**

31ST DECEMBER 2017	TOTAL	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 and over Days
PCK Excess Deposits	780,394,108	-	-	-	780,394,108
KPTC - Excess Deposits	405,231,629	-	-	-	405,231,629
PCK Prepaid GOK Pension	512,767,484	(7,883,972)	8,937,684	8,981,577	502,732,195
PCK Overdrawn Claimable	47,643,590	-	-	(107,445)	47,751,035
Staff Debtors PDL	138,267,614	113,170,569			25,097,045
Interest Receivable PDL	106,157,285	(8,609,455)	4,216,212	(34,028,974)	144,579,502
Director Loan	3,327,044	-	-	-	3,327,044
Staff Loans	847,777,925	749,961,279			97,816,646
Staff Imprest	3,975,485	13,627	(150,000)	(2,623,623)	6,735,480
Commission Receivable -GOK	40,853,890	5,688,000	5,612,400	5,601,900	23,951,590
Restitution -PCK	58,847,809	-	28,500	1,000	58,818,309
Rent Receivable	60,203,935	20,949,885	(2,357,353)	68,373	41,543,030
GOK Pension Cheques Receivable	268,553,158	-	-	-	268,553,158
Trade Debtors	126,700,382	176,841,318	25,843,086	17,832,791	(93,816,814)
Total Receivables	**3,400,701,338**	**1,050,131,251**	**42,130,529**	**(4,274,400)**	**2,312,713,958**
Provision For Bad Debts	(677,623,725)	(2,000,000)	(1,000,000)	-	(674,623,725)
Net Receivables	**2,723,077,613**	**1,048,131,251**	**41,130,529**	**(4,274,400)**	**1,638,090,233**

25 Prepayments and Other Assets

	2018 Kshs	2017 Kshs
Accrued interest on Treasury Bonds	78,285,174	83,608,741
Discount on Treasury Bonds	54,452,463	47,738,766
Fixed deposits in ailing financial institutions	406,138,379	417,007,051
Transitorial Accounts - Postbank (i)	1,078,128,969	1,078,181,457
Premium on Treasury Bonds (Prepaid)	289,445,895	307,015,011
Other Assets and Prepayments	918,918,425	917,928,138
	2,825,369,305	2,851,479,164
Provision for bad and doubtful debts:		
Amounts due from subsidiary and deposits	(406,138,379)	(417,007,051)
	2,419,230,925	2,434,472,113

(i) Kshs. 1,078,128,969 under Transitorial accounts relates to balances held in accounts used by the Bank to process internal payments. Therefore, the balance is not a realisable asset.

26 (a) Property and Equipment

As at 31 December 2018

	Land	Building	Leasehold	Motor Vehicles	Furniture & Fittings	Electronic Office Eqpmt	Non Electronic Office Eqpmt	Computer Hardware	Fixed Asset Clearing Account	Capital Work In Progress	Total
Cost or Valuation											
At 1 Jan. 2018	854,500,000	1,053,550,000	6,500,000	29,123,656	319,072,378	245,743,573	74,550,057	622,560,251	(18,278,713)	9,949,122	3,197,270,324
Additions	0	0	0	10,711,350	1,849,712	1,617,624		9,495,669	22,334,406	44,465	46,053,226
Revaluation surplus	(49,500,000)	468,536,130		11,475,000	74,543,646	60,477,343	19,984,251	191,993,044			777,509,414
Cost 31.12.2018	**805,000,000**	**1,522,086,130**	**6,500,000**	**51,310,006**	**395,465,735**	**307,838,541**	**94,534,308**	**824,048,964**	**4,055,693**	**9,993,587**	**4,020,832,964**
Depreciation											
Depre.01.01.18	0	332,619,333	6,500,000	29,123,656	254,188,075	210,295,590	66,013,896	583,531,602	0	0	1,482,272,152
Charged 2018	0	39,190,483		2,825,095	28,666,275	25,200,603	8,299,532	74,118,048		0	178,300,037
Depre.31.12.18	**0**	**371,809,816**	**6,500,000**	**31,948,751**	**282,854,350**	**235,496,193**	**74,313,428**	**657,649,650**	**0**	**0**	**1,660,572,189**
NBV 31.12.2018	**805,000,000**	**1,150,276,314**	**0**	**19,361,255**	**112,611,386**	**72,342,348**	**20,220,880**	**166,399,313**	**4,055,693**	**9,993,587**	**2,360,260,775**
NBV 31.12.2017	**854,500,000**	**720,930,667**	**0**	**0**	**64,884,303**	**35,447,983**	**8,536,161**	**39,028,649**	**(18,278,713)**	**9,949,122**	**1,714,998,172**

Land, Buildings, Motor Vehicles, Furniture & Fittings, Electronic Office Equipment's, Non Electronic Office Equipment's and Computer Hardware were revalued on an open market basis by professional valuers, Realty Valuers East Africa Limited as at 29th December 2017. The book values of the properties were adjusted to the revaluations, and the resulting surplus, was credited to the revaluation reserve.

26 (b) Property and Equipment

As at 31 December 2017

	Land	Building	Leasehold	Motor Vehicles	Furniture & Fittings	Electronic Office Eqpmt	Non Electronic Office Eqpmt	Computer Hardware	Fixed Asset Clearing Account	Capital Work In Progress	Total
Cost or Valuation											
At 1 Jan. 2017	854,500,000	1,053,550,000	6,500,000	29,123,656	314,420,670	242,119,643	73,823,634	616,360,976	(18,682,089)	4,170,684	3,175,887,174
Additions	0	0	0	0	4,651,708	3,623,930	726,423	6,199,275	403,376	5,778,438	21,383,150
Cost 31.12.2017	854,500,000	1,053,550,000	6,500,000	29,123,656	319,072,378	245,743,573	74,550,057	622,560,251	(18,278,713)	9,949,122	3,197,270,324
Depreciation											
Depre.01.01.17	0	306,280,583	6,500,000	29,816,600	238,417,368	196,434,301	63,503,382	547,411,263		0	1,388,363,497
Charged 2017	0	26,338,750			15,770,707	13,861,289	2,510,514	36,120,339		0	94,601,599.00
Write Back	0	0	0	(692,944)	0	0	0	0		0	(692,944)
Depre.31.12.17	0	332,619,333	6,500,000	29,123,656	254,188,075	210,295,590	66,013,896	583,531,602	0	0	1,482,272,152
NBV 31.12.2017	854,500,000	720,930,667	0	0	64,884,303	35,447,983	8,536,161	39,028,649	(18,278,713)	9,949,122	1,714,998,172
NBV 31.12.2016	854,500,000	747,269,417	0	* (692,944)	76,003,303	45,685,342	10,320,252	68,949,712	(18,682,089)	4,170,684	1,787,523,677

*Overstated accumulated depreciation charged in year 2016 was adjusted in FY 2017

26 (C) Land and Buildings

Cost / Valuation	Land	Buildings	Show Stand	2018	2017
	Kshs	Kshs	Kshs	Kshs	Kshs
Long-term leasehold	760,000,000	1,090,000,000	0	1,850,000,000	1,709,750,000
Short-term leasehold	45,000,000	105,000,000	6,500,000	156,500,000	204,800,000
	805,000,000	**1,195,000,000**	**6,500,000**	**2,006,500,000**	**1,914,550,000**

Included in short-term leasehold land and buildings is a property purchased in Mombasa. It was revalued downwards from Kshs 125 million to Kshs.50 million

27 Intangible Assets

	2018 Kshs	2017 Kshs
Cost		
At 1 January	575,214,934	575,214,934
Additions	16,571,403	0
At 31 December	**591,786,337**	**575,214,934**
Amortisation		
At 1 January	509,069,403	490,442,331
Amortization for the year	19,436,076	18,627,072
At 31 December	528,505,479	509,069,403
Carrying Amount		
At 31 December	**63,280,858**	**66,145,531**

The intangible assets are in respect of computer software, Internet and mobile banking software

The revaluation of this category of assets was higher but was found prudent to recognise them at cost.

		2018	2017
28	**Customers' Savings and Deposit Accounts**	**Kshs**	**Kshs**
	Bidii Savings Account	8,565,064,833	8,422,775,102
	STEP Account	827,600,685	757,813,023
	Bidii Pension accounts	4,468,396,742	3,792,199,582
	Premium Savings Scheme	3,288,376	(21,862)
	Premium Plus Account	3,626,054,719	3,588,810,377
	Fixed Deposit Account	25,948,052	75,065,185
	Save-As-You-Earn	801,824,982	763,892,792
	Staff Salary Account	63,176,219	67,993,050
	Salary Account	244,692,571	247,692,300
	Postbank Junior Account	15,978,135	15,348,381
	Corporate Clients	478,573,349	432,712,820
	Smata Account	255,359,924	233,821,809
	Pamoja Chama Account	88,266,500	81,642,950
	Mzalendo Account	90,617	151,817
	Waridi Account	466,489,063	382,068,647
	Independent Agent Accounts	8,975,083	10,411,354
	M-chama Savings Account	62,985,169	24,973,084
	Msawa Account	2,303,157	1,742,512
	Akiba Account	1,406,628	2,009,852
	Inua Jamii	11,953,928	
		20,018,428,732	18,901,102,775

			2018	2017
29	**Accounts Payables and Accruals**		**Kshs**	**Kshs**
	Trade creditors		66,745,055	59,374,467
	PCK Services rendered- GoK Pension	(i)	534,420,585	534,372,812
	PCK Encashed Warrants Payable	(ii)	462,078,751	462,078,751
	PCK- Pension Warrants	(iii)	170,953,266	170,953,266
	GoK Pension Payroll	(iv)	999,323,179	904,080,077
	Accrued Expenses		205,648,962	370,493,868
	Other creditors		645,636,676	529,728,633
			3,084,806,475	3,031,081,874

(i) PCK Services rendered- GOK Pension/others refers to amount payable to Postal Corporation of Kenya for services offered to our pensioners/regular customers for normal banking services.

(ii) PCK Encashed warrant payable refers to amount claimable by Postal Corporation of Kenya on disbursement of pension to pensioners. The amount of Kshs.462,078,751 which has been outstanding since year 2007 will be settled along with expected amounts from PCK

(iii) PCK -GoK Warrant is the un-accounted amount to pensioners account held by PCK. The amount of Kshs.170,953,266 which has been outstanding since year 2007 will be settled along with expected amounts from PCK

(iv) GoK Pension Payroll is the un-applied amount to pensioners account held by PCK

		2018	2017
30	**GOK Pension Reserve Fund**	**Kshs**	**Kshs**
	Amount	173,295,172	(74,381,227)

These are pension funds from the Government for distribution to pensioners. In year 2018 the Government was owed by the Bank whereas in year 2017 the Bank used its money to pay pensioners pending GoK reimbursement

31 Capital Grants

	2018	2017
Western Union Product	2,013,211	2,013,211
Bidii Product	3,706,728	3,706,728
Visa EMV Project	229,458	229,458
Smata, Mchama & Agency Expansion Projects	22,430,560	6,957,640
	28,379,957	12,907,037

During the year the Bank receied capital grant of Kshs 15,472,920 from WSBI

		2018	2017
		Kshs	Kshs
32	**CASH AND CASH EQUIVALENTS**		
	Bank and cash balances (note 18)	1,031,719,792	626,307,465
	Deposits in banks and Financial Institutions (note 19)	62,707,843	35,579,852
	Treasury Bills and Bonds (note 20 -a)	4,489,136,467	4,773,042,050
		5,583,564,103	5,434,929,367

33 RELATED PARTY TRANSACTIONS

The Banks main related parties are the Board members, key management personnel and staff. The following transactions were carried out with related parties

	2018	2017
i) Directors remuneration		
Directors Honoraria	0	80,000
Directors Allowances	1,707,706	1,233,685
	1,707,706	1,313,685
(ii) Key management remuneration		
Salaries and wages	7,752,968	7,574,038
(iii) Loans to staff		
Welfare loans	769,980,304	847,777,925
Personal development Loan	116,231,349	138,267,614
	886,211,653	986,045,539

Interest income on these loans was Kshs 37,920,725 (2017-44,664,770). The effective interest rate for welfare loans is 5% while for personal development loan is 10%. Staff mortgages and car loans are secured by charging the related property to the Bank

(iv) Loans to Directors

No loan was issued to directors in the year under review. However, outstanding loan balance of Kshs 3,327,044 relates to loans advanced to former directors.
One loan of ksh2,024,403 was in respect of car loan to J.K. Sambu where recovery is through legal process and the other loan of Ksh1,302,641 was for David Chabeda (deceased) house loan where title had not been charged and recovery is through the administrtaor of Chabeda's Estate.

34 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2018 to the contractual maturity date.

A. Assets	Matured	Matured in less than a month	1 months less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years	over 5 years	Totals
Bank and Cash Balances	1,031,719,792								1,031,719,792
Investment in T/bills + Bonds		292,316,599	453,213,229	516,586,940	253,146,940	652,133,264	873,075,964	1,448,663,531	4,489,136,467
Funds on call and short notice		62,707,843							62,707,843
Investment Property						105,600,000		896,790,225	1,002,390,225
Other Investment			3,986,876						3,986,876
Other Assets	549,426,982	971,138,675	735,322,723	779,050,447	649,095,118	662,722,349	723,469,437		5,070,225,731
Property and Equipment			20,881,322		30,766,964	777,509,414	250,150,411	1,280,952,664	2,360,260,775
Intangible Assets			12,142,044	16,600,079	20,691,443	13,847,292			63,280,858
Total Assets	**1,581,146,774**	**1,326,163,117**	**1,225,546,194**	**1,312,237,466**	**953,700,465**	**2,211,812,319**	**1,846,695,812**	**3,626,406,420**	**14,083,708,567**
B. Liabilities and Reserves									
Other Liabilities	176,311,397	451,687,839	436,123,256	574,045,299	417,300,671	375,067,767	654,270,246		3,084,806,475
Customers' Savings and Deposit accounts	1,304,865,676	2,219,829,244	1,802,132,879	2,026,611,924	2,459,511,623	2,121,880,563	2,287,411,603	5,796,185,221	20,018,428,733
Gok Pension Reserve Fund Account	173,295,172								173,295,172
Capital Grants						15,472,920		12,907,037	28,379,957
Revaluation Reserves						883,109,414		2,388,250,796	3,271,360,210
Change un Fair value for Bonds	53,277,617	20,422,551	21,928,668						95,628,836
Revenue Reserves								(12,588,190,816)	(12,588,190,816)
Total Liabilities and Reserves	**1,707,749,862**	**2,691,939,634**	**2,260,184,803**	**2,600,657,223**	**2,876,812,294**	**3,395,530,664**	**2,941,681,849**	**(4,390,847,762)**	**14,083,708,567**
A- B Liquidity GAP	**(126,603,088)**	**(1,365,776,517)**	**(1,034,638,609)**	**(1,288,419,757)**	**(1,923,111,829)**	**(1,183,718,345)**	**(1,094,986,037)**	**8,017,254,182**	

Customers' Savings and deposits accounts relate to Savings and fixed account balances. Although classified under this band, previous experience has shown these to be stable and of long term in nature

35 CONSOLIDATION

Consolidated Accounts are not prepared as the Bank's wholly owned subsidiary, Postbank Credit Limited, is under liquidation

36 COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to reporting under IFRS

37 EMPLOYEES

The average number of employees during the year was 674 (2017-720).

38 SUBSEQUENT EVENTS

There have been no events subsequent to the financial year end with significant impact on the financial statements for the year ended December 31, 2018

39 NETWORK OF POSTBANK BRANCHES

The total number of branches during the year was 98.